

## Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-07 ISO-00 CIAE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 STR-04 CEA-01 NEA-10 IO-11 /119 W

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P R 090644Z MAR 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 2823

INFO AMEMBASSY CANBERRA PRIORITY

AMEMBASSY LONDON

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USADB

FOR NAC AGENCIES

E O. 11652: ADS, DECLAS 9/9/76

TAGS: EAID, EFIN, BP

SUBJECT: PROPOSED ADB TECHNICAL ASSISTANCE (TA) TO SOLOMON  
ISLANDS FOR SECOND AGRICULTURAL AND INDUSTRIAL LOANS BOARD  
PROJECT

REF: MANILA 2823

SUMMARY: ADB MANAGEMENT PROPOSES \$250,000 TA GRANT TO  
SOLOMON ISLANDS TO FINANCE FOREX COSTS OF EXPERT SERVICES  
TO ADVISE ON INSTITUTIONAL DEVELOPMENT, LOAN OPERATIONS,  
ORGANIZATION AND STAFF TRAINING OF THE AGRICULTURAL AND  
INDUSTRIAL LOANS BOARD (AILB) TO STRENGTHEN ITS MANAGEMENT  
AND OPERATIONS TO MEET THE DEVELOPMENT FINANCING REQUIREMENTS  
OF THE SOLOMON ISLANDS AND TO PREPARE FOR UPGRADING OF AILB  
INTO A DEVELOPMENT BANK. THIS TA IS FOLLOW-ON OF PREVIOUS  
BANK-FINANCED TA WHICH ESTABLISHED FEASIBILITY OF SUCH  
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UPGRADING, BUT IDENTIFIED DEFICIENCIES IN ROLE DEFINITION,

LEGAL STATUS AND FUNCTIONS OF AILB. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R18-76 WITH ATTACHMENTS DESCRIBING PROPOSED GRANT POUCHED ADDRESSEES MARCH 4. BOARD CONSIDERATION SCHEDULED MARCH 25.

2. ADB MANAGEMENT PROPOSING \$250,000 GRANT TO THE SOLOMON ISLANDS TO HELP PREPARE TO UPGRADE AILB INTO A NATIONAL DEVELOPMENT BANK. PROCEEDS WILL FINANCE FOREX COST OF FOREIGN EXPERT SERVICES TO ESTABLISH ORGANIZATIONAL STRUCTURE AND LEGAL BASIS, FORMULATE POLICY, RECRUIT STAFF, DESIGN AND CARRY OUT INTENSIVE TRAINING FOR BOTH INTERNAL AND FIELD STAFF, ASSIST IN PROPER UTILIZATION OF LOAN FUNDS TO BE PROVIDED. CONSULTANTS WILL OPERATE AND MANAGE AILB AS WELL AS SERVE AS ADVISERS. (TWO FOREIGN EXPERTS TO BE GENERAL MANAGER AND ASSISTANT MANAGER.)

3. MAY 1974, ADB PROVIDED \$45,000 GRANT TO SOLOMON ISLANDS TO STUDY FEASIBILITY OF UPGRADING AILB INTO A NATIONAL DEVELOPMENT BANK. CONSULTANTS (CHECCI AND CO., U.S.) STUDIED ECONOMY AND IDENTIFIED CREDIT REQUIREMENTS IN LIGHT OF COUNTRY'S RESOURCE ENDOWMENT AND DEVELOPMENT POTENTIAL. CONSULTANTS CONCLUDED THAT INSTITUTIONALLY AILB NOT EQUIPPED TO MEET DEVELOPMENT FINANCE NEEDS. DEFICIENCIES NOTED PARTICULARLY RE LEGAL STATUS, POLICY, ORGANIZATION, MANAGEMENT AND STAFF. CONSULTANTS RECOMMENDED ADDITIONAL TA REQUIRED TO PREPARE INSTITUTION TO PERFORM SATISFACTORILY.

4. AGRICULTURE IS MAINSTAY OF COUNTRY'S ECONOMY (MORE THAN 60 PERCENT GDP), WITH COPRA, LOGS AND FISH NOW ACCOUNTING FOR MORE THAN 90 PERCENT ANNUAL EXPORT EARNINGS. IN SEPARATE BANK-FINANCED TA, FUTURE EXPORT POTENTIAL OF LIVESTOCK PRODUCTION BEING EXAMINED. EXCEPT FOR COCONUT SMALL HOLDINGS, CURRENTLY EXPORT ACTIVITY MOSTLY CONDUCTED BY LARGE SCALE EXPATRIATE COMANIES.

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5. SIXTH DEVELOPMENT PLAN (1971-1974) WITH OUTLAY A\$17.5 MILLION WAS LARGELY FINANCED BY UK WHICH ALSO UNDERWRITES SUBSTANTIAL PORTION OF RECURRENT GOVT. BUDGET. GOVT. GOAL IS TO REDUCE THIS DEPENDENCE ON UK AID FOR ITS ON-GOING OPERATIONS. GRANT-IN-AID COMPONENT OF ANNUAL BUDGET WAS REDUCED FROM 25 PERCENT (1971) TO 17 PERCENT (1974). FURTHER REDUCTIONS CONTINGENT ON GOVT. ABILITY INCREASE REVENUE, ESPECIALLY FROM INDIRECT

TAXATION. THIS IN TURN WILL REQUIRE SUBSTANTIAL ECONOMIC EXPANSION IF TAX COLLECTIONS ARE TO BE INCREASED.

6. CURRENT NATIONAL PLAN (1975-1979) ENVISAGES CONTINUING PROGRESS TOWARDS ATTAINMENT OF ECONOMIC SELF-RELIANCE, COINCIDING WITH FUTURE ESTABLISHMENT OF INDEPENDENT POLITICAL STATUS. PLAN TARGETS INCLUDE REAL GDP INCREASE OF 20 PERCENT, REDUCED POPULATION GROWTH RATE, LOCAL PARTICIPATION (AT LEAST 25 PERCENT) IN EQUITY OF LARGE COMMERCIAL ENTERPRISES, 3500 NEW JOBS, ELIMINATION OF GRANT-IN-AID, A TRADE SURPLUS, A NATIONAL CURRENCY AND GOVT. PARTICIPATION IN COMMERCIAL BANKING. PLANNED PUBLIC SECTOR INVESTMENT OF ABOUT A\$60 MILLION EXPECTED TO BE MATCHED BY A\$10 TO A\$15 MILLION PRIVATE INVESTMENT.

7. AILB ESTABLISHED UNDER ORDINANCE IN 1955, WAS EMPOWERED MAKE LOANS FOR LAND, CRAFTS, INDUSTRIES OR ANY OTHER SCHEME SUBJECT TO APPROVAL OF HIGH COMMISSIONER (NOW GOVERNOR). AILB BOARD ORIGINALLY COULD NOT APPROVE ANY LOAN ABOVE A\$4000 LIMIT WITHOUT PRIOR SANCTION OF HIGH COMMISSIONER (LIMIT LATER INCREASED TO A\$20,000). AILB HAS NO SHARE CAPITAL. ALL ITS RESOURCES DERIVE FROM GOVT. GRANTS AND/OR LOANS PLUS INCOME FROM LOAN REPAYMENTS, INTEREST, FEES, RETURNS ON INVESTMENTS AND RETAINED EARNINGS.

7. AS OF 30 SEPTEMBER 1975, TOTAL AILB RESOURCES WERE A\$1.31 MILLION COMPRISED OF GRANTS (A\$0.40 MILLION); INTEREST FREE LOANS (A\$0.24 MILLION AND ACCUMULATED PROFITS AND RESERVE (A\$0.28 MILLION). REMAINING A\$0.39 MILLION IS LOAN AT 2 1/2 PERCENT INTEREST FROM UK ALLOCATED FOR SMALL BUSINESS CREDIT.

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8. AILB IS SUPERVISED IN GOVT. BY MINISTRY OF AGRICULTURE AND LANDS (MAL) WITH SEVEN-MAN BOARD HEADED BY SENIOR MAL FIELD OFFICER, PLUS A FOREIGN EXPATRIATE

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-07 ISO-00 CIAE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 STR-04 CEA-01 NEA-10 IO-11 /119 W

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P R 090644Z MAR 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 2824

INFO AMEMBASSY CANBERRA PRIORITY

AMEMBASSY LONDON

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FOR NAC AGENCIES

ACCOUNTANT, FOUR LOCAL BUSINESSMEN AND A CHURCH OFFICIAL, ALL APPOINTED BY GOVERNOR FOR 1-YEAR TERM AND NONE HAVING BANKING EXPERIENCE. THERE IS NO EXECUTIVE MANAGEMENT STAFF PER SE. WHILE AG LOANS ARE PROCESSED BY FIELD OFFICERS OF AGRICULTURE DEPT, SMALL BUSINESS, COMMERCIAL AND INDUSTRIAL LOANS ARE UNDERTAKEN BY A BUSINESS ADVISORY UNIT SUPERVISED BY UK-FUNDED EXPATRIATE EXPERT AIDED BY U.S. PEACE CORPS VOLUNTEERS UNDER MINISTRY OF TRADE, INDUSTRY & LABOR. ALTHOGETHER, AILB HAS NINE DIRECT HIRE STAFF PLUS ABOUT 12 TO 15 ADDITIONAL PERSONS ELSEWHERE ON GOVT. PAYROLL WORKING FOR AILB. TYPICAL LOANS MADE HAVE BEEN FOR LAND PURCHASE, LOGGING, PIGGERY AND CATTLE, SMALL BUSINESS, AND TO FIANCE BOATS, MARINE ENGINES AND SHIP REPAIRS. EXPATRIATES WERE RECIPIENTS OF MOST LOANDS MADE PRIOR TO 1971, BUT NOW SOLOMON ISLANDERS RECEIVE VIRTUALLY ALL LOANS MADE.

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9. INTEREST RATES CHARGED HAVE BEEN LOW (4 TO 5 1/2 PERCENT) BUT LACK OF SECURITY AND HIGH RISK FACTOR HAVE RESULTED IN SOME DEFAULTS. IN 20 YEARS OF OPERATIONS, AILB APPROVED AND DISBURSED 636 LOANS FOR TOTAL AMOUNT OF A\$2.1 MILLION, WITH A\$3,300 AVERAGE SIZE OF LOAN. WITH

INCREASED EMPHASIS ON LOANS TO ISLANDERS AND RURAL AREAS, TREND IS TO LARGER NUMBER OF SMALLER LAONS. FINANCIAL SITUATION OF AILB AS OF END FY1974-5 WAS DEEMED SATISFACTORY WITH NET PROFIT A\$38,716 (DOWN FROM \$46,144 TO THE PREVIOUS YEAR DUE TO DECREASE IN INTEREST INCOME FROM UNUSED FUNDS AND HAVING TO PAY FROM OCT. 1974, INTEREST TO GOVT. FOR SMALL BUSINESS LOAN). ACTUAL OPERATING EXPENSES WOULD BE HIGHER IF WORK DONE BY PEACE CORPS VOLUNTEERS AND AGRICULTURAL DEPARTMENT OFFICIALS WERE TAKEN INTO ACCOUNT.

10. AS OF 30 SEPT. 1975, AILB HAD LOAN PORTFOLIO OUTSTANDING OF A\$0.76 MILLION WITH DEFAULT RATE OF 3.4 PERCENT, CONSIDERED A REASONABLY GOOD PERFORMANCE RECORD. HOWEVER, AILB DOES NOT HAVE CAPACITY TO EXPAND TO MEET POTENTIAL DEMAND FOR DEVELOPMENT FIANCE ANTICIPATED DURING NEXT FIVE YEARS. ALSO, CONSULTANTS NOTED LACK OF CONSISTENT WELL-DEFINED POLICIES, LEADERSHIP AND MANAGEMENT, PLUS INCAPACITY OF STAFF TO PROPERLY APPRAISE AND ANALYZE LOAN PROPOSALS.

11. ON BASIS OF DISCUSSIONS BETWEEN ADB MISSIONS AND GOVT, GOVT. INDICATED ITS DESIRE AND ENDORSEMENT OF CONSULTANT RECOMMENDATIONS TO EXPAND AND UPGRADE IALB TO MEET MOST FIANCING REQUIREMENTS IN THE ECONOMY (ONLY OTHER FIANCE SOURCES ARE 3 FOREIGN BANKS WHICH MAINTAIN BRANCH OFFICES LOCALLY). GOVT. PREFERS MAJOR EMPHASI OF LENDING TO BE RURAL AND AG-BASED, PLUS SOME INDUSTRIAL AND COMMERCIAL ACTIVITIES. CONSULTANTS ALSO URGED INCREASE IN INTEREST RATES TO 5 TO 6 PERCENT, ESTABLISHMENT OF A CAPITALIZED STRUCTURE (INCLUDING ABOUT A\$2.2 MILLION IN NEW MONEY), TRAINING OF LOCAL STAFF, CONTINUATION AS REQUIRED OF GOVT. GRANTS AND SUBSIDIES, AND PROVISION OF TWO EXPATRIATE EXPERTS TO SERVE INITALLY AS GENERAL MANAGER AND ASSISTANT. LIMITED OFFICIAL USE

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12. PROPOSED TA WOULD BE COMPRISED OF 30 MAN/MONTHS OF EXPERT SERVICES, TO BE PROVIDED BY TWO EXPERTS IN TWO PHASES. PHASE I WOULD BE SIX MONTHS OF SERVICES OF A SENIOR INSTITUTIONAL EXPERT WHO WOULD DRAFT CHARTER AMENDMENTS, FORMULATE POLICY STATEMENT, RECRUIT LOCAL COUNTERPART STAFF, SET UP PROCEDURES AND PLAN STAFF TRAINING PROGRAM. FOR PHASE II, SENIOR EXPERT WOULD ASSUME DUTIES AS GENERAL MANAGER FOR THE ENSUING 12 MONTHS, WHILE HE WOULD BE JOINED DURING THIS PHASE BY ANOTHER EXPERT WHO WOULD SERVE AS ASSISTANT MANAGER FOR LOAN ADMINISTRATION.

13. TOTAL COST OF TA ESTAIMATED AT U.S.\$250,000  
BROKEN DOWN INTO EXPERT REMUNERATION: \$180,000 (\$6000 X  
30 MAN/MOS.); TRAINING, RRAVEL AND OTHER EXPENSES:  
\$45,000; CONTINGENCIES: \$25,000. GOVT. OF SOLOMON ISLANDS  
TO MEET ALL LOCAL COSTS INCLUDING OFFICE SPACE, SUPPLIES,  
SECRETARIAL SERVICES, INTERNAL TRAVEL, RESIDENTIAL  
ACCOMMODATION, ETC., ESTAIMTED TO COST US\$30,000.  
ADDITIONAL REQUIREMENTS FOR TA WOULD BE CONSIDERED BY  
BANK AND GOVT. AFTER COMPLETION OF THESE TWO PHASES  
(EXPECTED BY END OF 1977), AND WOULD BE BASED ON  
APPRAISAL OF CAPACITY OF LOCAL TRAINEES TO TAKE OVER  
MANAGERIAL POSITIONS.

14. ADB MANAGEMENT RECOMMENDS TA BE APPROVED TO  
STRENGTHEN AN INSTITUTION EXPECTED TO ASSUME  
A KEY ROLE IN FUTURE ECONOMIC DEVELOPMENT OF SOLOMON  
ISLANDS. IT IS NOTED THAT IS SOLOMON ISLANDS' POLICY  
OF EXPANSION AND DIVERSIFICATION OF EXPORTS FOR WHICH  
AILB MIGHT PARTICIPATE IN FIANCING, THAT OIL PALM  
PRODUCTION WAS IDENTIFIED TOGETHER WITH BEEF CATTLE  
DEVELOPMENT AS DESIRED OBJECTIVES (BD DOC. PARA 11).  
DURING BOARD CONSIDERATION OF THIS PROJECT, U.S.  
DIRECTOR INTENDS TO REPEAT ADMONITION MADE AT AN EARLIER  
BOARD MEETING (PER REFTTEL) REGARDING UNCERTAIN WORLD  
MARKETING PROSPECTS FOR VEGATIBLE OILS. USADB RECOMMENDS  
FAVORABLE NAC ACTION.

15. REQUEST U.S. EMBASSY CJTBERRA COMMENTS FOR NAC  
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AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795  
DATED 3 JULY 1972.  
SULLIVAN

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TECHNICAL ASSISTANCE GRANTS, DEVELOPMENT PROGRAMS, BANKS  
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**Draft Date:** 09 MAR 1976  
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**Decaption Note:**  
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**Disposition Date:** 28 MAY 2004  
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**Reference:** 76 MANILA 2823  
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**TAGS:** EAID, EFIN, BP, ADB  
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